



## Douglas County Internal Audit

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March 8, 2012

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, , PJ Morgan,  
Chris Rodgers and Pam Tusa

Kent Holm, Environmental Services Director  
3015 Menke Circle  
Omaha, NE 68134

Dear Commissioners and Mr. Holm:

I have completed an audit of billing and cash handling for the Douglas County landfill. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used in billing credit customers and collecting payments for credit and non-credit customers. Generally accepted practices used for billing and cash handling functions, such as input output balancing and proper segregation of duties, were used as criteria to determine if the controls were designed adequately and operated effectively. The audit revealed that, overall, controls were adequately designed and worked effectively. Opportunities to improve controls were identified and appear below.

### **Background**

Douglas County contracts with Waste Management for the general operation and maintenance of the Pheasant Point solid waste landfill site. The landfill division of Environmental Services operates the scale house, collects fees from users, and pays Waste Management pursuant to the contract between Douglas County and Waste Management. The landfill collected approximately \$10.9 million in fees for the 2011 fiscal year. Ensuring that the fees are properly calculated and collected is an important function for the County.

Chapter 13 of the Nebraska state statutes applies to the operation of waste sites. Sec. 13-205 gives authority to the County to fix the rates charged at the facility. The fees are approved by the County Board each year. The Board approved rates were used to assess the accuracy of all scale house transactions tested.

## **Objective**

The purpose of the audit was to assess the adequacy and effectiveness of the control processes used in billing credit customers and collecting payments for credit and non-credit customers. Specifically, assessments and tests were conducted to determine if the procedures met the following objectives:

- Each landfill customer is charged for all and only the amount of waste delivered to the landfill.
- Billings to credit customers are complete and accurate.
- Cash receipts are completely and accurately posted to the correct revenue and customer accounts.
- Credit accounts are being effectively monitored to help ensure prompt payment of invoices.
- All duties for billing and cash collections are adequately segregated to limit and detect errors and irregularities.

## **Scope**

The policies and procedures in effect from July 2011 through January 2012 were used to assess the design of the controls. This included the policies and procedures in effect for Environmental Services, County Administration, the County Clerk, and the County Treasurer's office. The period from July 1, 2011, through December 31, 2011, was used to test landfill revenue and cash transactions.

## **Methodology**

The policies and procedures provided by the Environmental Services Audit Accountant and obtained by interviews and observations were used to assess the design of the controls in place over billing and cash handling. Oracle user listings provided by the County Clerk's office were used in the assessment of proper segregation of duties. Numerous tests were performed using transactions and other work product generated during the period identified in the scope above.

Thirty credit and thirty cash invoices from the period under review were randomly selected to test the accuracy of the amounts charged and collected based upon the related scale tickets and Board approved rates. Twenty days were randomly selected to determine that each day's collection of cash was balanced to scale transactions and that the amounts were promptly deposited in the bank. Various reports from two months of activity were examined to determine that transactions from the landfill's PC Scale system were completely and accurately loaded into Oracle for invoice generation and posting to the general ledger. Forty credit customer receipts were examined to determine that the amounts were properly posted to the correct customer and ledger accounts. All adjustments posted to invoices during the review period were examined for legitimacy. Two Bank of Bennington bank reconciliations were examined to see that they were prepared and reviewed appropriately. Past-due collection activities for the last two months of calendar year 2011 were reviewed for evidence of effective monitoring of past-due accounts.

The evidence gathering and analysis techniques during the audit included, but were not limited to:

- Interviews of Environmental Services, Fiscal Administration, County Treasurer and County Clerk personnel.
- Reviews of various departmental policies and procedures.
- Examination of PC Scale system reports and scale tickets.
- Review of Oracle financial reports, user listings and general ledger views.
- Review of bank statements and check images.
- Review of mail and email correspondence.
- Observation of scale house activity.

The issues identified by the audit appear in the Findings section below.

## **Findings**

### **Outstanding Accounts**

Criteria: Accounting procedures should include a generally accepted methodology for recording uncollectible receivables. If an uncollectible allowance account is used, its balance should be determined by a supportable methodology. The efforts of collection personnel should be promptly communicated to management. Uncollectible items should be removed from accounts receivable and established allowances in a timely manner.

Condition: Per review of the Past-Due Invoice Report and information provided by Fiscal Administration personnel, past-due landfill accounts have not been written-off since invoicing began in Oracle in 2003. Internal Audit estimates that there is approximately \$286,000 of bad debt related to landfill customers. It was noted that one account, Central Waste, makes up \$263,000 of this amount. A \$263,000 uncollectible receivable reserve had been set up in the year-end financial statements, but no provision has been made for current bad debt which the reserve should reflect.

Effect: Net revenue, accounts receivable and the allowance for uncollectible balances are misstated. Once a suitable methodology is put in place an appropriate allowance amount can be established.

Cause: The County does not have comprehensive policies and procedures for recording uncollectible receivables including a methodology for determining an allowance amount for the uncollectible receivables. Additionally, there are no established procedures for providing feedback to landfill management regarding County Attorney collection activity or decisions reached regarding collectability. It was noted that County Fiscal Administration is working on a comprehensive accounts receivable processing policy.

Recommendation: Include in the accounts receivable policies being drafted an appropriate methodology for writing-off bad debts and estimating the uncollectible allowance amount. Procedures should also include language requiring timely communication and accountability from the County Attorney regarding their collection activity for all past-due accounts sent to them.

Management Response: As part of its comprehensive accounts receivable processing policy the County will implement a procedure for writing –off bad debts and determining if a reserve amount for uncollected receivables is necessary. This policy will be consistent with the resolutions that require County Attorney review and approval of such write-downs, notice of account write-downs to the Clerk/ Comptroller and a report summarizing such write-downs to be sent to the County Board of Commissioners. All invoices over 120 days past due will be reviewed by the Finance Director, County Attorney and the applicable department representatives to determine the appropriate action. The County Attorney will communicate in a timely manner all account write-downs of past-due accounts that it approves. The amount of uncollectable accounts receivable from the landfill that will be written- off is \$276,137 as of 3/1/12.

### **Credit Customer Adjustments**

Criteria: All adjustments to accounts receivable should be properly approved by management. Access to accounts receivable information and processes should only be provided in accordance with management’s approval which provides for adequate segregation of duties.

Condition: There were two issues related to accounts receivable invoice adjustments and credit memos. Invoice adjustments and credit memos were not approved by management. Secondly, the Environmental Services Audit Accountant performs collection duties and has the ability to void transactions in the PC Scale system. The PC Scale software report is the source for transactions that are uploaded into Oracle for invoice creation.

Effect: Accounts receivable adjustment errors or irregularities may not be detected. Management credit policies could be circumvented resulting in additional revenue losses.

Cause: Procedures currently used to adjust landfill customer accounts within Oracle did not require management approval or review. Additionally, there were no policies or procedures in place to specifically address how to mitigate segregation of duty issues related to the use of the PC Scale system.

Recommendation: Management should only approve adjustments and credits after reviewing appropriate supporting documentation. The adjustments and credits should only be entered upon management’s approval. Consider using Oracle workflow to ensure management has approved all customer invoice adjustments and credit memos. If workflow is not practical, create Oracle reports that would route the adjustment and credit memo transactions to management for review to ensure that all and only the approved credits and adjustments were input into Oracle.

To help ensure that unauthorized adjustments are not made on the PC Scale program, have the scale house forward a Customer Report copy to the Fiscal Administration Accountant. Agree the report balance to the PC Scale upload file report total. (Void activity recorded by the Audit Accountant would not be included on the scale house report. Scale house transactions are recorded separately from the Environmental Services office. Different report totals could be an indication of errors or unauthorized activity.)

Management Response: The data from the scale house is sent directly to DotComm for processing into Oracle. Adjustments are made after that transmittal.

Invoice adjustments and credit memos will be independently reviewed and approved in the future as new procedures with appropriate segregation of duties are being implemented. The Audit Accountant will provide supporting documentation for adjustments and credits to the AR Accountant who will make such adjustments, which will then be approved by the Audit Accountant.

To ensure that unauthorized adjustments are not made on the PC scale program, the scale house will send directly to the AR Accountant a customer report copy. The Audit Accountant and the AR Accountant will reconcile in Oracle the account balance of this formal balancing report to the PC scale upload file report total.

## **Bank Reconciliations**

Criteria: Management should communicate clear and consistent policies for reconciling bank accounts including appropriate supervisory review.

Condition: The following bank reconciliation issues were noted:

- There was no indication the bank balance was reconciled to the general ledger.
- There was no formal review of the reconciliation.
- The reconciliation did not include dates and initials of the reconciler.

Effect: Bank reconciliation and general ledger errors or omissions may not be detected in a timely manner.

Cause: There is no consistent County-wide policy for the preparation and review of bank reconciliations.

Recommendation: The County Treasurer should develop County-wide policies and procedures for bank reconciliations that include detailed instructions for preparation, review and use of a consistent format. Draft a Board resolution directing all elected officials and department heads to abide by the procedures.

Management Response: Although the bank account is not formally reconciled to the Oracle general ledger, the disbursements and receipts are verified with source documentation. The Department Director receives the reconciliation and can perform a formal review prior to submission to the County Clerk's office.

The Douglas County Treasurer's Office is happy to assist in developing policies and procedures that can be used countywide. However, the Douglas County Treasurer's Office does not have the staff to manage the review of the bank reconciliations for all of Douglas County. We believe this would require a minimum commitment of a 0.5 fte to manage these duties. The Treasurer's Office would need the resources to be able to hire this person to commit to these duties on a monthly basis.

The Douglas County Treasurer's Office also believes it should not take on the responsibility of drafting a board resolution to direct all elected officials and department heads to abide by this procedure.

### **Audit Standards**

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with Kent Holm, Environmental Services Director.

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Internal Audit appreciates the excellent cooperation provided by Environmental Services' management and its staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Paul Tomoser  
Joni Davis  
Trent Demulling  
Donald Stephens  
Tom Cavanaugh  
John Ewing  
Kathleen Kelley  
Joe Lorenz  
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